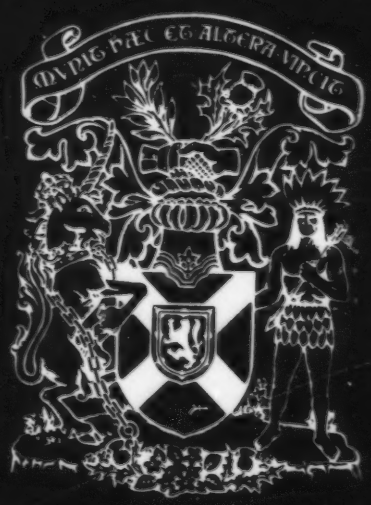
NOVA SCOTIA MUNICIPAL FINANCE CORPORATION



ANNUAL REPORT For the Year ended December 31, 1988

89-05798/

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HOW THE CORPORATION FUNCTIONS

AUTHORITY

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 5 of the Acts of 1978-79.

PURPOSE

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards and hospitals by the issuance of its securities, and relending the funds to municipal units and boards.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province or other municipalities within the Province.

ADMINISTRATION

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty percent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by municipalities on the basis of taxable assessments.

Support staff and resources of the Provincial Departments of Attorney General, Finance and Municipal Affairs have been provided to the Corporation.

The Corporation office is located at:	1701 Hollis Street Suite 302 Halifax, Nova Scotia
The mailing address is:	P.O. Box 850 Station M Halifax, Nova Scotia B3J 2V8
The telephone number is:	(902) 424-4590
The FAX number is:	(902) 424-0525

DIRECTORS AND OFFICERS

DIRECTORS OF THE CORPORATION

Richard S. Brookfield, F.C.A.	Chairman and Chief Executive Officer
Edgar G. Cramm, M.P.A.	Director, Finance and Advisory Services Department of Municipal Affairs
Douglas McC. Carter	Mayor of Truro, Nova Scotia
R. Wendell Phinney	President, Phinney Holdings Limited Kentville, Nova Scotia
Harold A. Renouf, O.C., F.C.A.	Business Consultant, Halifax, Nova Scotia

OFFICERS OF THE CORPORATION

Secretary	R. Mark Gilbert, M.B.A. Municipal Advisor Department of Municipal Affairs
Treasurer	Shirley L. Carras, C.A.
General Counsel	James G. Spurr Financial Counsel Department of the Attorney General
Assistant Treasurer	Richard W. McAloney, C.A. Manager of Trusts and Financing Department of Finance

DIRECTORS' REPORT

MARKET CONDITIONS

The reduction in interest rates which commenced after the stock market collapse of October 19, 1987, continued during the early months of 1988. However, it became increasingly clear that the U.S. and Canadian economies remained buoyant; therefore, interest rates began to rise once again as the year progressed. These higher interest rates were also due to rising concerns over increasing inflationary pressures and consumer debt levels and continuing Federal Government deficits in both the U.S. and Canada.

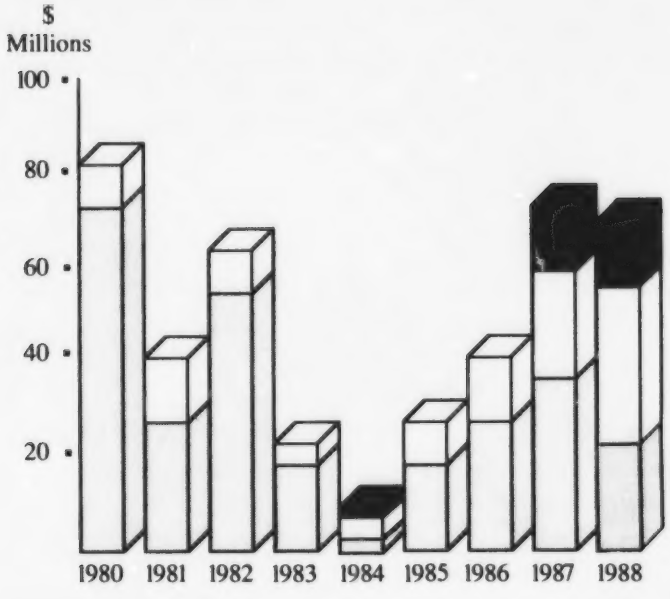
LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS

During the year, loans were made to twenty-two municipal units, fifteen school boards and four hospitals, totalling $66,585,910, which were used for the following purposes:

	Projects Administered by Departments of		
	Municipal Affairs	Education	Health & Fitness
Schools	$	$35,042,813	$
Hospitals			10,313,647
Water	1,727,500		
Sewer	1,128,300		
Streets	7,205,900		
Buildings	5,844,950		
Land	648,600		
Electrical Systems	325,000		
Equipment	537,200		
Recreation	434,000		
Solid Waste	1,555,000		
Sewage Treatment	100,000		
Transit	1,500,000		
School Transportation	223,000		
	$21,229,450	$35,042,813	$10,313,647
Number of Loans	44	38	7

In each of the nine years since the Corporation commenced operation in 1980, long-term loans were made as depicted in the following chart:

LONG TERM LOANS
MADE DURING YEAR

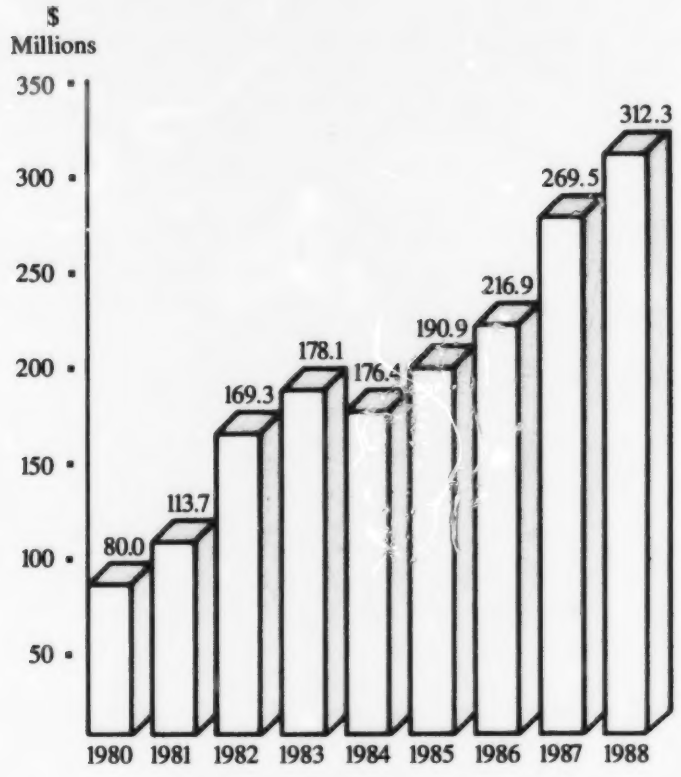


	1980	1981	1982	1983	1984	1985	1986	1987	1988
Municipal	74.1	29.9	51.7	17.6	2.1	15.8	26.9	31.7	21.2
School Boards	5.5	8.6	10.0	2.2	8.3	12.2	13.0	28.1	35.1
Hospitals	—	—	—	—	.4	—	—	10.1	10.3
	79.6	38.5	61.7	19.8	10.8	28.0	39.9	69.9	66.6

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans to municipal units, school boards and hospitals at the end of each year have risen to $312.3 million in 1988, as shown in the following chart:

LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS AS AT DECEMBER 31



Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

BORROWING PROGRAM

Two Debenture issues in the domestic Canadian market totalling $66,600,000 during 1988 provided funds for the loans to municipal units, school boards and hospitals. In May, $19.5 million was raised by a ten year public serial issue. In November, an additional $47.1 million of public 10 year serials was issued. These issues bore interest rate coupons from 9% to 11%.

TRUST FUNDS UNDER ADMINISTRATION

The Corporation administers two Sinking Funds on behalf of municipal units and school boards. The first relates to loans of $35,000,000 to ten units maturing on December 22, 1996. The second fund relates to six loans totalling $9,801,000 maturing on July 12, 1992. These two Sinking Funds are to be applied to the repayment of these loans at maturity.

Following is a summary of the Sinking Funds for the year ended December 31, 1988.

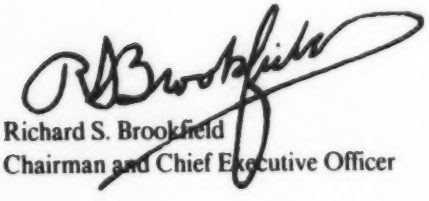
	Trust #1	Trust #2
Balance at January 1, 1988	$8,913,632	$ 3,993,417
Sinking Fund payments received	1,050,000	588,060
Income earned in 1988	1,060,494	488,683
Balance at December 31, 1988	$11,024,126	$5,070,160

COST OF ADMINISTRATION

In 1988, the Province of Nova Scotia continued to assume all the administrative expenses of the Corporation, as has been its practice in previous years. The administrative expenses, which totalled $214,412, were $3,188 under budget.

ACKNOWLEDGEMENTS

The Board of Directors wishes to express its appreciation for the continuing financial assistance provided by the Provincial Government. Special mention should be made of the excellent co-operation received from the Departments of the Attorney General, Education, Finance, Health & Fitness and Municipal Affairs. Each of these Departments has contributed the services of staff members which have been of great assistance to the Corporation. The Directors also wish to acknowledge the excellent contribution made by the staff members of the Corporation.



Richard S. Brookfield
Chairman and Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1988

ASSETS

	1988	1987
CURRENT ASSETS		
Cash	$ 14,325	$ 12,743
Short-term investments, at cost which approximates market value	4,210,000	3,725,000
Accrued interest receivable	6,530,827	6,010,570
Principal due within one year on loans to units	27,635,923	23,788,049
	38,391,075	33,536,362
LONG-TERM ASSETS		
Loans to units (note 1)	312,282,079	269,484,218
Less principal included in current assets	27,635,923	23,788,049
	284,646,156	245,696,169
DEFERRED CHARGES		
Discount on debenture debt	1,340,760	1,258,904
Less accumulated amortization	897,479	802,772
	443,281	456,132
	$323,480,512	$279,688,663
TRUST FUND ASSETS (note 2)	$ 16,094,286	$ 12,907,049

Approved by the Board

Director

Director

LIABILITIES AND EQUITY

	1988	1987
CURRENT LIABILITIES		
Accounts payable	$ 99,004	$ 91,368
Accrued interest payable	7,126,709	6,662,092
Principal due within one year on debenture debt	27,452,000	23,503,000
	34,677,713	30,256,460
LONG-TERM DEBT		
Debenture debt (note 3)	312,640,000	269,543,000
Less principal included in current liabilities	27,452,000	23,503,000
	285,188,000	246,040,000
DEFERRED CREDITS		
Discount on loans to units	1,343,640	1,261,795
Less accumulated amortization	913,828	821,797
	429,812	439,998
EQUITY		
Reserve Fund	3,184,987	2,952,205
	$323,480,512	$279,688,663
TRUST FUNDS UNDER ADMINISTRATION (note 2)	$ 16,094,286	$ 12,907,049

STATEMENT OF REVENUE, EXPENDITURE AND RESERVE FUND

YEAR ENDED DECEMBER 31, 1988

	1988	1987
REVENUE		
Interest on loans to units	$32,853,074	$28,596,068
Amortization of discount on loans to units	92,031	85,365
Interest on short-term investments	315,956	242,684
Current discount on loans to units	459,598	606,161
Grant, Province of Nova Scotia for administrative expenses	214,412	198,267
	33,935,071	29,728,545
EXPENDITURE		
Interest on debenture debt	32,915,428	28,651,544
Amortization of discount on debenture debt	94,707	89,070
Interest on bank loan	417	1,185
Debenture issue expenses	477,325	409,632
Administrative expenses (note 4)	214,412	198,267
	33,702,289	29,349,698
NET REVENUE BEING AN INCREASE IN RESERVE FUND	232,782	378,847
Reserve fund at beginning of year	2,952,205	2,573,358
RESERVE FUND AT END OF YEAR	$ 3,184,987	$ 2,952,205

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1988

	1988	1987
CASH DERIVED FROM		
Net revenue being an increase in Reserve Fund	$ 232,782	$ 378,847
Add (deduct) items not involving cash		
Amortization of discount on loans to units	(92,031)	(85,365)
Amortization of discount on debenture debt	94,707	89,070
	235,458	382,552
Issue of debentures of $66,600,000 net of discounts of $81,856 (1987, $69,600,000 net of $1,261)	66,518,144	69,598,739
Principal received on loans to units	23,788,049	17,093,190
Payout of sinking fund loan	—	199,000
	90,541,651	87,273,481
CASH APPLIED TO		
Loans of $66,585,910 to units on security of debentures, net of discounts of $81,845 (1987, $69,869,408 net of $3,239)	66,504,065	69,866,169
Principal payments on debenture debt	23,503,000	16,912,000
Change in non-cash working capital	48,004	147,064
	90,055,069	86,925,233
INCREASE IN CASH POSITION	486,582	348,248
Cash position at beginning of year	3,737,743	3,389,495
CASH POSITION AT END OF YEAR	$ 4,224,325	$ 3,737,743

Cash position is defined as cash plus short-term investments.

AUDITORS' REPORT

To the Chairman and Members of the Board of Directors of the
Nova Scotia Municipal Finance Corporation

We have examined the statement of financial position of the Nova Scotia Municipal Finance Corporation as at December 31, 1988 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
March 1, 1989

Thorne Ernst + Whinney
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1988

GENERAL

Created by the Municipal Finance Corporation Act, which was proclaimed on July 31, 1979, the Corporation began operations on January 1, 1980 and its fiscal year-end is December 31. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises and hospitals, through a central borrowing authority.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Discounts on long-term debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to cover time lags between the payment dates of the Corporation's obligations and the dates payments are received from units, to provide interest rate stabilization, and to cover differentials in interest and amortization of discounts in loan operations.

1. LOANS TO UNITS

(a) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Provisions exist for the recovery of any defaults by municipalities, therefore an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are:

1989	$27,635,923
1990	27,592,789
1991	27,141,304
1992	36,304,079
1993	23,888,642

2. TRUST FUNDS UNDER ADMINISTRATION

Trust Fund assets totalling $16,094,286 (1987, $12,907,049) are held on behalf of certain municipal units and school boards, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

3. DEBENTURE DEBT

(a) The debenture debt outstanding at December 31, 1988 totalling $312,640,000 (1987, $269,543,000) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
A	Jan. 4/80	1989 to 2000	11.250	$ 15,000,000
B	July 2/80	1989 to 2000	11.500-12.000	8,600,000
C	Dec. 19/80	1989 to 2000	13.375	15,000,000
D	Dec. 19/80	1989 to 2000	13.375	6,000,000
E	Sept. 10/81	1989 to 1991	17.500	1,677,000
F	Dec. 22/81	1996	15.000	35,000,000
G	Jan. 28/82	1989 to 1994	15.750	12,400,000
H	July 12/82	1992	15.500	10,000,000
J	Nov. 23/82	1989 to 1992	13.000	8,480,000
K	Sept. 7/83	1989 to 1998	11.750-12.750	9,900,000
L	Nov. 9/83	1989 to 1993	12.000	1,050,000
M	Aug. 28/84	1989 to 1999	14.000-14.250	6,500,000
N	Apr. 2/85	1989 to 2005	11.500-12.500	12,255,000
P	Dec. 11/85	1989 to 2000	10.000-11.000	8,250,000
Q	July 22/86	1989 to 1996	9.500-10.000	21,780,000
R	Nov. 5/86	1989 to 1996	9.500-10.000	11,290,000
S	May. 14/87	1989 to 1997	7.625- 8.750	31,627,000
T	Dec. 15/87	1989 to 1997	9.500-10.750	31,231,000
U	May 11/88	1989 to 1998	9.000-10.375	19,500,000
V	Nov. 3/88	1989 to 1998	10.500-11.000	47,100,000
				$312,640,000

Interest is payable semiannually.

(b) Principal payments due in each of the next five years are as follows:

1989	$27,452,000
1990	27,430,000
1991	27,023,000
1992	36,372,000
1993	23,723,000

4. ADMINISTRATIVE EXPENSES

	1988		1987
	Budget	Actual	Actual
Salaries and benefits	$174,200	$173,220	$151,157
Travel	6,000	2,575	4,034
Equipment and maintenance	6,500	7,114	17,329
Printing	2,000	2,071	1,940
Postage	2,000	2,199	1,355
Telephone	3,600	3,437	3,135
Stationery and supplies	2,300	3,411	1,557
Professional services	7,500	7,959	8,000
Bank charges	3,400	4,020	2,471
Directors' fees and expenses	4,500	2,868	2,694
Other	5,600	5,538	4,595
	$217,600	$214,412	$198,267

5. INCOME TAXES

The Corporation is not subject to Provincial or Federal Income Taxes.